

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 2003-911

March 12, 2004

MAINE PUBLIC SERVICE COMPANY
Request for an Accounting Order to
Permit the Deferral, and Rate Treatment
For Costs Related to the Installation of
Information Technology Systems

ACCOUNTING ORDER

WELCH, Chairman; DIAMOND and REISHUS, Commissioners

I. SUMMARY

In this Order we grant Maine Public Service Company's (MPS or Company) request, as modified, for an accounting order to permit the capitalization, seven year amortization, and rate treatment of the external vendor implementation costs designated for "training and business process re-engineering" associated with the implementation of the Company's new information system software that would otherwise normally be expensed under Generally Accepted Accounting Principles (GAAP).

II. BACKGROUND

On December 11, 2003, MPS filed a request with the Commission that the Commission issue an accounting order authorizing the Company to defer and amortize for future recovery in rates \$309,000 for training and "business process re-engineering" costs associated with the implementation of the Company's new information system software package. According to MPS, these costs, which were not included in revenue requirements in its recently concluded rate case, are not normally capitalized under GAAP, and are of the nature which MPS believes should be treated in a manner consistent with other implementation costs.

On January 6, 2004, the Office of Public Advocate (OPA) filed a petition to intervene, which was granted without objection. An initial case conference was held on January 22, 2004. On February 5, 2004, MPS filed responses to the oral data requests posed at the case conference. As part of this filing, the Company also modified its original request from \$309,000 to \$77,000 to reflect its withdrawal of its request to defer costs associated with internal labor.

III. DECISION AND ANALYSIS

In the Company's recently concluded rate case, *Maine Public Service Company, Request for Approval of Alternative Rate Plan*, Docket 2003-85, costs related to a new software system that MPS planned on implementing during the rate year were included in rates, although the Company had not made a final decision regarding which system it would select. Upon final review, MPS selected a software package that, while costing more than the system it originally planned on purchasing, would give the Company better results. In its accounting order request of December 11, 2003, MPS requested

that it be allowed to defer \$309,000 of both internal and external software implementation costs. Upon further review, it determined that \$232,000, associated with internal implementation costs, were already included in the rates set in Docket No. 2003-85. Therefore, it amended its request to include only the external training and business process re-engineering costs associated with the implementation of its new software package, estimated at approximately \$77,000 (the "IT External Training and Process Re-engineering Costs").

In Docket No. 2003-85, the estimates related to training for the Company's new software system were capitalized, and the amortization of such costs over a six-year period was included in revenue requirements. The external training costs requested for deferral here appear to be similar in-kind but slightly greater in amount than the comparable implementation costs that were included in rates in Docket No. 2003-85. Therefore, we conclude that similar accounting and rate treatment is warranted.

The amortization period for large software projects such as the one at issue here was addressed in the recent transmission case with the Federal Energy Regulatory Commission (FERC), Docket No. ER00-1053-010, as well as in Docket No. 2003-85. The Company has agreed to amortize these costs over a seven-year period, agreed to in the FERC case, which is the longer of the two amortization periods agreed to. Accordingly, we

O R D E R

1. That MPS is hereby permitted to capitalize and amortize for future recovery in rates over a seven-year period the IT External Training and Process Re-engineering Costs which are currently estimated at \$77,000, associated with the implementation of its new software package; and
2. That upon conclusion of the implementation of the software project at issue here, MPS will file with the Commission and the Office of the Public Advocate, a summary of the external costs incurred and deferred, as well as the amortization expensed.

Dated at Augusta, Maine, this 12th day of March, 2004.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch
Diamond

COMMISSIONER ABSENT: Reishus

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within **21 days** of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.